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Especially for Homemakers

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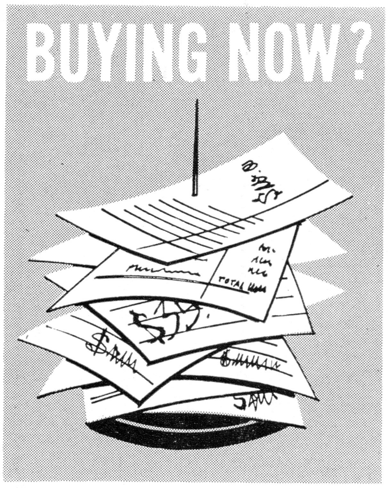


BUYING NOW? ......BILLS LATER? TAKE A GOOD LOOK AT Christmas Credit

MANY AN Iowa family this Christmas season will set out to buy a family gift for itself—perhaps a TV set, or clothes washer, or some furniture.

They may prefer to pay cash outright. One family out of three will do this. The other two families will seek some long-range credit plan. This is not uncommon. About 85 percent of the durables such as furniture and appliances that we buy are bought on the installment plan.

The purpose of this article is not to discuss the pros and cons of cash versus credit. Families differ in when the checks come in and how comfortable they feel about credit use. Rather let's look at some cues that can keep credit buying, if we plan to use it for major Christmas purchases, under our firm control—come January, February, and as the other monthly payments come due.

Credit Cues for Christmas Shoppers

Cue 1. Don't untie your purse strings with the first credit offer that comes your way. Looking for a good buy means not only shopping wisely for that TV set or washer; it also means shopping for the *best* credit offer you can find. Often you can save several dollars.

Cue 2. Remember, the store isn't being generous. It can make money when people buy "on time." Store profits today often rest as much on sale of credit as on the sale of merchandise.

Cue 3. When you discuss a possible "time" plan with the sales clerk, pin down the total dollar cost for the entire time period. Have him figure the cost in dollars. Don't stop with quoted interest charges per month. Know the money out-go involved each month and in the long run.

Cue 4. Many stores offer two types of credit plans—installment credit and revolving credit. Compare these plans. The total dollars involved could be different.

Here's an example: Let's say you plan to buy a refrigerator that costs $300 cash. You'd like to take 18 months to pay for it. The sales clerk tells you that, on the installment plan, the cost would total $365. On the revolving plan, you'd pay $343.

In this instance, *because the time period of 18 months is the same for both plans,* you can compare the two plans on a dollar basis. Here the revolving plan would be in your favor by $22—a saving not to be ignored.

Cue 5. If you are considering *installment* credit for that Christmas gift, check up on two points:

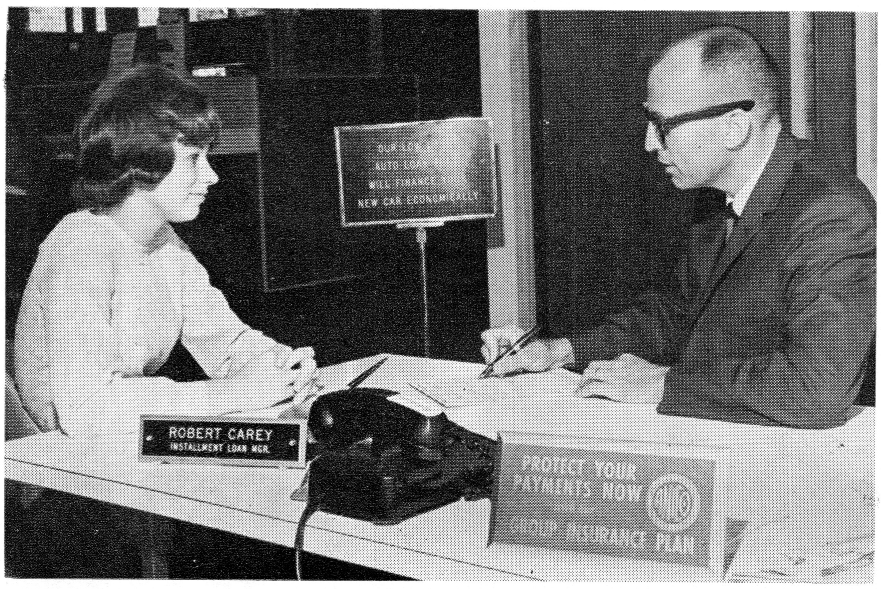
(a) the actual dollars you would owe;

(b) the *true* interest rate you'd be paying.

Take note. Interest rates quoted in installment buying aren't always what they seem. Here's why. For example, when the clerk tells you the interest is 9 percent, he's quoting a rate that assumes you will owe the full amount of the debt for the entire period. But this will not be the case. Actually, you'll be paying off that debt with each monthly payment. Halfway through you'll have cut the debt in half.

Figure this way – *true* interest rate is about twice the *stated* rate; in this case, not 9 percent but closer to 18 percent interest.

Cue 6. First impressions about what you pay for revolving credit can be wrong, too. That 1½ percent per month interest looks deceptively low. Perhaps revolving credit is a good solution, but you do need to know that you are not paying just 1½ percent interest. The charge is on a per month basis on what you



In many cases, it is more economical to borrow needed money for a large purchase from a bank rather than using an installment plan.

owe each month. This means 1½ percent x 12 months – actually 18 percent *true* annual interest. To know dollar out-go on this basis, see the example "Buying on Revolving Credit."

Before you sign on the dotted line, determine what the true annual interest on a purchase will be.

Cue 7. Don't feel obligated to use the store's credit plan even if you do decide to buy the TV set or washer there. Could you borrow the money needed at a lower interest rate than called for by the store's plan? Banks and credit unions often offer lower rates than retail stores charge. Your money is involved, so shop where you can borrow the money for the least dollar cost. The credit union requires membership, of course, but many such unions are maintained here in Iowa by places of employment, communities, and even churches.

Cue 8. When two or more stores offer you the same merchandise at approximately the same price *but* on different credit plans, take time to weigh the offers. Store A says you can buy that $300 refrigerator for $20.20 a month for 18 months (total cost $363.60). Store B offers the refrigerator for $13.00 a month over 28 months (total cost $364). Surprise! No big difference. Don't let the lower monthly plan necessarily influence you. Find the interest rate being charged—the *true* annual interest rate that is. Then you can compare dollar out-go for 12 months, or 18 or longer.

Credit union loans are available through workers' groups, chambers of commerce, and business organizations.

Buying on Revolving Credit

The maximum amount you can borrow on revolving credit is arranged between the store and you. A typical interest charge is 1½ percent per month on the balance you owe each month (18 percent true annual interest). If you pay $60 down for a $300 refrigerator and plan to pay the remaining $240 on the revolving plan, the charges or paying off in 12 months would be as follows:

Owed each month		Interest cost	
Jan. $240		$3.60	
$220		$3.30	
$200		$3.00	
$180		$2.70	
$160		$2.40	
$140		$2.10	
$120	average owed	$1.80	average interest
$100	per month is $130	$1.50	per month is
$ 80		$1.20	$1.95
$ 60		$ .90	
$ 40		$ .60	
$ 20		$ .30	
		$23.40 dollar cost of credit	

$1.95 is 18 percent of $130

Borrowing money is much easier than paying it back, so be certain you don't exceed your budget limitations.

Remember—"It's not buying on time that causes worries; it's paying on time." You can control the payments, if you know ahead exactly what they'll be. Shop well for credit. It can mean a difference in dollars. It can also mean the difference between a happy Christmas and the "bill blues" in the New Year.

—Frankie N. Schwenk
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Especially for... HOMEMAKERS